

HARLAN COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2015

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HARLAN COMMUNITY SCHOOL DISTRICT

OFFICIALS

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---------------------------|---------------------------------------|---------------------|
| Board of Education | | |
| Kathy Mahlberg | President | 2015 |
| Lonnie Muxfeldt | Vice President | 2017 |
| Joni Larsen | Board Member | 2015 |
| Bruce Goeser | Board Member | 2015 |
| Al Hazelton | Board Member | 2017 |
| Angie Monson | Board Member | 2017 |
| Amy Rueschenberg | Board Member | 2017 |
| School Officials | | |
| Justin Wagner | Superintendent | 2015 |
| Kelli Klaassen | Director of Personnel/Board Secretary | 2015 |
| John Helling | District Treasurer | Indefinite |
| Brian Gubbels | Director of Finance | Indefinite |
| Richard Schenck | Attorney | Indefinite |

HARLAN COMMUNITY SCHOOL DISTRICT



Diane McGrain, CPA
Jim Menard, CPA

November 25, 2015

INDEPENDENT AUDITORS' REPORT

The Board of Education
Harlan Community School District
Harlan, IA 51537

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Harlan Community School District, Harlan Iowa, as of and for the year ended June 30, 2015, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Continued...

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Harlan Community School District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 13 to the financial statements, Harlan Community School District adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial reporting for Pensions - and Amendment of GASB Statement No. 27*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, The Schedule of the District's Proportionate Share of the Net Pension Liability, The Schedule of District Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 9 through 18 and 51 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harlan Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 25, 2015
Harlan Community School District
Independent Auditors' Report

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2015 on our consideration of Harlan Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harlan Community School District's internal control over financial reporting and compliance.

Schroer & Associates, PC

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Harlan Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- General Fund revenues increased \$153,239 from \$15,326,466 in fiscal 2014 to \$15,479,705 in fiscal 2015, while General Fund expenditures increased \$816,460 from \$15,893,471 in fiscal 2014 to \$16,709,931 in fiscal 2015. The net increase in revenues and increase in expenditures resulted in a decrease in the District's General Fund balance from \$4,124,074 in fiscal 2014 to \$2,926,555 in fiscal 2015 which is a 29.0 percent decrease from the prior year.
- The increase in General Fund revenues was attributable to increases in property tax revenues, state aid revenue, and open enrollment revenue. The increase in expenditures was due primarily to wages and employee benefits.
- The District's General Fund financial transactions resulted in a decrease to the District's solvency ratio as it was 24.1% for 2014 and 16.3% for 2015. The District's solvency level indicates the District is able to meet unforeseen financing requirements and presents a sound risk for the timely repayment of short-term obligations. Iowa Association of School Boards and Iowa Association of School Business Officials recognize a solvency ratio between 8-12% as financially acceptable.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Harlan Community School District as a whole and present an overall view of the District's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Harlan Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Harlan Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, the District's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.
- Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

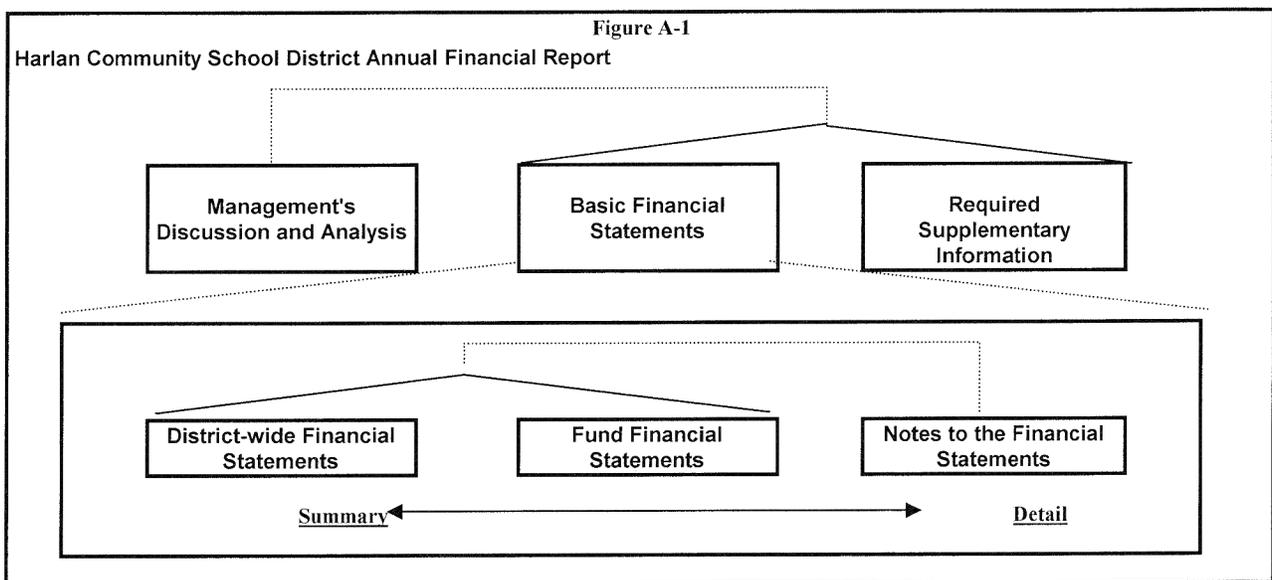


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

| | Government-wide Statements | Fund Statements | | |
|--|--|--|---|---|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire district (except fiduciary funds) | The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance | Activities the District operates similar to private businesses: food services | Instances in which the District administers resources on behalf of someone else, such as scholarship programs |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net position • Statement of activities | <ul style="list-style-type: none"> • Balance Sheet • Statement of revenues, expenditures, and changes in fund balances | <ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in net position • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, short-term and long-term | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid | All additions and reductions during year, regardless of when cash is received or paid |

REPORTING OF DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflow of resources, liabilities and deferred inflows of resources, with the difference reported as net position. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property tax and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

1. *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance District's programs. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures, and changes in fund balances.

2. *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way the Government-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses, and changes in fund net assets, and a statement of cash flows.

3. *Fiduciary funds*: The District is the trustee or fiduciary for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.
 - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
 - Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

Government-Wide Financial Analysis

Net position – Figure A-3 below provides a summary of the District's net position at June 30, 2015 compared to June 30, 2014.

Figure A-3

Condensed Statement of Net Position

| | Governmental Activities | | Business-type Activities | | Total School District | | Total Change June 30, 2014-2015 |
|-------------------------------|-------------------------|----------------------|--------------------------|---------------------|-----------------------|----------------------|---------------------------------------|
| | June 30, | | June 30, | | June 30, | | |
| | 2015 | 2014 (not restated) | 2015 | 2014 (not restated) | 2015 | 2014 (not restated) | |
| Current and other assets | \$ 14,282,661 | \$ 21,282,766 | \$ 353,512 | \$ 398,337 | \$ 14,636,173 | \$ 2,168,103 | -48.10% |
| Capital assets | 19,314,814 | 18,633,870 | 78,889 | 93,483 | 19,393,703 | 18,727,353 | 3.40% |
| Total assets | 33,597,475 | 39,916,636 | 432,401 | 491,820 | 34,029,876 | 40,408,456 | -18.70% |
| Deferred outflow of resources | 2,335,671 | - | 41,476 | - | 2,377,147 | - | 100.00% |
| Long-term liabilities | 18,452,009 | 12,745,659 | 167,113 | - | 18,619,122 | 12,745,659 | 31.50% |
| Other liabilities | 2,839,602 | 7,834,647 | 65,326 | 60,830 | 2,904,928 | 7,895,477 | -171.80% |
| Total liabilities | 21,291,611 | 20,580,306 | 232,439 | 60,830 | 21,524,050 | 20,641,136 | 4.10% |
| Deferred inflows of resources | 8,386,954 | 5,923,817 | 63,732 | - | 8,450,686 | 5,923,817 | 29.90% |
| Net position: | | | | | | | |
| Invested in capital assets | | | | | | | |
| Net of related debt | 7,384,415 | 6,576,071 | 78,889 | 93,483 | 7,463,304 | 6,669,554 | 10.60% |
| Restricted | 3,665,418 | 3,748,403 | - | - | 3,665,418 | 3,748,403 | -2.30% |
| Unrestricted | (4,795,252) | 3,088,039 | 98,817 | 337,507 | (4,696,435) | 3,425,546 | -237.10% |
| Total net position | \$ 6,254,581 | \$ 13,412,513 | \$ 177,706 | \$ 430,990 | \$ 6,432,287 | \$ 13,843,503 | -115.20% |

The District's total net position decreased by 115.2 percent or \$7,411,216 from the prior year. The largest portion of the District's net position is the invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net position decreased approximately \$82,985 or 2.3 percent from the prior year. The increase was primarily a result of building the reserves in the District's management fund.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased \$8,121,981 or 237.1 percent. This reduction in unrestricted net position was primarily a result of the District's net pension liability net pension expense recorded in the current year.

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 for governmental activities and business type activities were restated by \$6,944,467 and \$250,846, respectively, to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. Fiscal year 2013 and 2014 financial statements for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Changes in net position – Figure A-4 shows the changes in net position for the year ended June 30, 2015 compared to the year ended June 30, 2014.

| | Figure A-4 | | | | | |
|---|-------------------------|---------------------|--------------------------|--------------------|-----------------------|---------------------|
| | Changes in Net Position | | | | | |
| | Governmental Activities | | Business-type Activities | | Total School District | |
| | June 30, | | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services and sales | \$ 1,970,943 | \$ 1,759,586 | \$ 422,998 | \$ 419,526 | \$ 2,393,941 | \$ 2,179,112 |
| Operating grants, contributions and restricted interest | 2,474,387 | 2,546,997 | 386,697 | 375,201 | 2,861,084 | 2,922,198 |
| Capital grants, contributions, and restricted interest | 677,574 | 755,723 | - | - | 677,574 | 755,723 |
| General revenue: | | | | | | |
| Property tax | 5,419,449 | 5,221,716 | - | - | 5,419,449 | 5,221,716 |
| Local option sales tax | 1,348,141 | 1,265,004 | - | - | 1,348,141 | 1,265,004 |
| Unrestricted state grants | 7,145,633 | 7,246,965 | - | - | 7,145,633 | 7,246,965 |
| Unrestricted investment earnings | 15,975 | 16,878 | 778 | 735 | 16,753 | 17,613 |
| Other | 45,111 | 16,238 | (19,992) | - | 25,119 | 16,238 |
| Total revenues | 19,097,213 | 18,829,107 | 790,481 | 795,462 | 19,887,694 | 19,624,569 |
| Program expenses: | | | | | | |
| Governmental activities: | | | | | | |
| Instruction | 12,264,594 | 11,667,159 | - | - | 12,264,594 | 11,667,159 |
| Support services | 4,943,471 | 4,858,698 | - | - | 4,943,471 | 4,858,698 |
| Non-instructional programs | - | - | 842,682 | 845,225 | 842,682 | 845,225 |
| Other expenses | 8,836,715 | 2,757,752 | - | - | 8,836,715 | 2,757,752 |
| Total expenses | 26,044,780 | 19,283,609 | 842,682 | 845,225 | 26,887,462 | 20,128,834 |
| Change in net position | \$ (6,947,567) | \$ (454,502) | \$ (52,201) | \$ (49,763) | \$ (6,999,768) | \$ (504,265) |

In fiscal year 2015, property tax and unrestricted state grants account for 63.2 percent of total revenue. The District's expenses primarily relate to instruction and support services which account for 64.0 percent of the total expenses. The total expenses do include payments to an escrow agent for bond refunding and if the bond refunding were removed then instruction and support services would account for 80.0 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$19,097,213 for fiscal 2015 and \$18,829,107 for fiscal 2014. Expenses were \$26,044,780 for fiscal 2015 and \$19,283,609 for fiscal 2014. The District expenditures exceeded revenues resulting in a slight decrease in financial position. Included in the expenses for fiscal 2015 was a payment to an escrow agent for bond refunding in the amount of \$5,385,000.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs, and other expenses, for the year ended June 30, 2015 compared to the year end June 30, 2014.

| | Figure A-5 | | | |
|------------------|---|-------------------|----------------------|-------------------|
| | Total and Net Cost of Governmental Activities | | | |
| | Total Cost of Services | | Net Cost of Services | |
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Instruction | 11,937,221 | 11,781,586 | 8,372,042 | 8,338,748 |
| Support services | 4,912,815 | 4,720,784 | 4,642,809 | 4,448,504 |
| Other expenses | 2,267,408 | 2,133,503 | 979,689 | 786,315 |
| Totals | 19,117,444 | 18,635,873 | 13,994,540 | 13,573,567 |

- The cost financed by users of the District's programs was \$1,970,943 for 2015 and \$1,759,586 for 2014.

- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,151,961 for 2015 and \$3,302,720 for 2014.
- The net cost of governmental activities was financed with the following:

| | <u>30-Jun-15</u> | <u>30-Jun-14</u> |
|------------------------|------------------|------------------|
| Property Taxes | 5,419,449 | 5,221,716 |
| Local Option Sales Tax | 1,348,141 | 1,265,004 |
| State Unrestricted | 7,145,633 | 7,246,965 |
| Interest Income | 15,975 | 16,878 |
| Other Revenue | 45,111 | 16,238 |

Business-Type Activities

Revenues of the District's business-type activities were \$810,473 for 2015 and \$795,462 for 2014, and expenses were \$842,682 for 2015 and \$845,225 for 2014. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Harlan Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$6,265,738 for 2015 and \$13,213,305 for 2014. The primary reason for the decrease in combined fund balances in fiscal 2015 is due to the implementation of GASB Statement No. 68 which was discussed earlier in the Net Position section of this Management's Discussion and Analysis. The District experienced a slight decrease in enrollment during fiscal year 2015 and will have to rely on State Foundation Aid allowable growth increases, new revenue sources, or use fund balance to cover increases in costs.

Governmental Fund Highlights

- The District's decrease in General Fund financial position is the product of many factors. Although the District saw an increase in some revenue areas including property tax collections, expenditures increased at a slightly higher rate resulting in an overall decrease in financial position. The increased expenditures were mainly from increases in salaries and benefits.
- The General Fund balance decreased from \$4,124,074 to \$2,926,555 due in part to an overall increase in expenditures over revenues.
- The District's Debt Service Fund saw a decrease during fiscal year 2015 due to the disbursement of the funds from the advanced refunding of the District's general obligation bonds that were being held in escrow until the call date of the bonds.
- The Capital Project Fund balance decreased from \$3,223,476 to \$2,268,427 due in large part to several capital projects being completed during fiscal year 2015. Due to GASB 54 Fund Balance Reporting Requirements, the Physical Plant and Equipment Levy (PPEL) Fund balance is now included in the Capital Project Fund balance.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from \$430,990 at June 30, 2014 to \$177,706 at June 30, 2015, representing a decrease of approximately 142.5%. The implementation of GASB Statement No. 68 required the District to adjust their School Nutrition Fund net position to provide a more comprehensive measure of pension expense that is more reflective of the amounts employees earned during the year.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, The Board of Education annually adopts a budget following required public notice and hearing for all funds, except for internal services, private-purpose trusts and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District' budget is prepared on the accrual basis. The District operated within its certified budget. A schedule showing the original and final budget amounts compared to the District's actual financial activity are included in the required supplementary information section of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the District had invested approximately \$19.39 million, net of accumulated depreciation, in a broad range of capital assets including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$945,833.

The original cost of the District's capital assets was \$30.2 million. Governmental funds account for \$30.0 million with the remainder of \$.2 million in the Proprietary, School Nutrition Fund.

The significant capital assets activities include the athletic field renovation, air handler replacement, security, and the vehicle purchases.

| | Governmental Activities | | Business-type Activities | | Total School District | |
|-----------------------------------|-------------------------|---------------|--------------------------|-----------|-----------------------|---------------|
| | June 30, | | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Land | \$ 25,700 | \$ 25,700 | \$ - | \$ - | \$ 25,700 | \$ 25,700 |
| Improvements other than buildings | 198,781 | 209,800 | - | - | 198,781 | 209,800 |
| Construction in Progress | - | 860,796 | - | - | - | 860,796 |
| Buildings | 18,560,072 | 16,888,968 | - | - | 18,560,072 | 16,888,968 |
| Furniture and equipment | 530,261 | 648,606 | 78,889 | 93,483 | 609,150 | 742,089 |
| Totals | \$ 19,314,814 | \$ 18,633,870 | \$ 78,889 | \$ 93,483 | \$ 19,393,703 | \$ 18,727,353 |

Long-Term Debt

At June 30, 2015 the District had \$12,794,795 general obligation and other long-term debt outstanding. This represents a decrease of approximately 27.7% from last year. The decrease is primarily attributable to the disbursement of the funds from the advanced refunding of the District's general obligation bonds that were being held in escrow until the call date of the bonds. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

| Figure A-7 | | | |
|--|-----------------------|-------------------|---------------|
| Outstanding Long-Term Obligations | | | |
| | Total School District | | Total Change |
| | 2015 | 2014 | 2014-2015 |
| General obligation bonds | - | 5,350,194 | -100.0% |
| Revenue bond refunding bonds | 7,705,000 | 7,250,836 | 6.3% |
| General obligation refunding bonds | 5,089,795 | 5,099,769 | -0.2% |
| Totals | 12,794,795 | 17,700,799 | -27.7% |

FACTORS THAT BEAR ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District administration is taking steps to balance the District's revenues and expenditures and keep the District in a healthy financial position.
- The District has seen a decrease in enrollment. The District's funding for FY16 will be based on the decreased enrollment. It is paramount that the District makes its financial decisions based upon the reduced enrollment.
- The District is closely monitoring the uncertainty of state and local finances in light of the national and global financial situation. It is uncertain whether or not there will be additional reductions made to the fiscal year 2016 budget.
- The District's state wide penny sales tax receipts are sufficient enough to pay the current general obligation and revenue bonds. As a result the District will not assess any property tax levy for debt service repayment.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brian Gubbels, Director of Finance, Harlan Community School District, 2102 Durant Street, Harlan, Iowa 51537.

BASIC FINANCIAL STATEMENTS

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015**

| | Governmental Activities | Business Type Activities | Total |
|--|----------------------------|--------------------------------|-------------------|
| Assets | | | |
| Cash, cash equivalents and pooled investments | \$ 7,563,144 | 307,057 | 7,870,201 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 60,501 | - | 60,501 |
| Succeeding year | 5,432,229 | - | 5,432,229 |
| Accounts | 29,291 | - | 29,291 |
| Accrued Interest | 1,200 | - | 1,200 |
| Due from other governments | 1,141,160 | 26,928 | 1,168,088 |
| Prepaid expenses | 55,136 | - | 55,136 |
| Inventories | - | 19,527 | 19,527 |
| Capital assets, net of accumulated depreciation | 19,314,814 | 78,889 | 19,393,703 |
| Total assets | <u>33,597,475</u> | <u>432,401</u> | <u>34,029,876</u> |
| Deferred Outflows of Resources | | | |
| Pension related deferred outflows | 1,471,275 | 41,476 | 1,512,751 |
| Advanced debt refunding deferred outflows | 864,396 | - | 864,396 |
| Total deferred outflows of resources | <u>2,335,671</u> | <u>41,476</u> | <u>2,377,147</u> |
| Liabilities | | | |
| Accounts payable | 260,519 | 453 | 260,972 |
| Salaries & benefits payable | 1,631,701 | 50,155 | 1,681,856 |
| Accrued interest payable | 81,243 | - | 81,243 |
| Unearned revenue | - | 14,718 | 14,718 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| Bonds payable | 1,745,000 | - | 1,745,000 |
| Other post employment benefits | 41,520 | - | 41,520 |
| Compensated absences | 79,619 | - | 79,619 |
| Portion due after one year: | | | |
| Bonds payable, net of unamortized premiums | 11,049,795 | - | 11,049,795 |
| Net pension liability | 5,931,886 | 167,113 | 6,098,999 |
| Other post employment benefits | 470,328 | - | 470,328 |
| Total liabilities | <u>21,291,611</u> | <u>232,439</u> | <u>21,524,050</u> |
| Deferred Inflows of Resources | | | |
| Unavailable property tax revenue | 5,432,229 | - | 5,432,229 |
| Unavailable income surtax revenue | 692,474 | - | 692,474 |
| Pension related deferred inflows | 2,262,251 | 63,732 | 2,325,983 |
| Total deferred inflows of resources | <u>8,386,954</u> | <u>63,732</u> | <u>8,450,686</u> |
| Net Position | | | |
| Net investment in capital assets | 7,384,415 | 78,889 | 7,463,304 |
| Restricted for: | | | |
| Categorical funding | 407,478 | - | 407,478 |
| Debt service | 807,550 | - | 807,550 |
| Management levy purposes | 926,964 | - | 926,964 |
| Student activities | 133,469 | - | 133,469 |
| Capital projects | 940,712 | - | 940,712 |
| Physical plant and equipment levy | 449,245 | - | 449,245 |
| Unrestricted | (4,795,252) | 98,817 | (4,696,435) |
| Total net position | <u>\$ 6,254,581</u> | <u>177,706</u> | <u>6,432,287</u> |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|----------------------|------------------------|--|--|--|---------------------------------|---------------------|
| | Expenses | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Governmental Activities | Business- Type Activities | Total |
| Governmental activities: | | | | | | | |
| Instruction: | | | | | | | |
| Regular instruction | \$ 7,860,718 | 1,095,732 | 1,368,765 | - | (5,396,221) | - | (5,396,221) |
| Special instruction | 2,286,604 | 221,770 | 256,020 | - | (1,808,814) | - | (1,808,814) |
| Other instruction | 1,789,899 | 584,645 | 38,247 | - | (1,167,007) | - | (1,167,007) |
| | <u>11,937,221</u> | <u>1,902,147</u> | <u>1,663,032</u> | <u>-</u> | <u>(8,372,042)</u> | <u>-</u> | <u>(8,372,042)</u> |
| Support services: | | | | | | | |
| Student services | 614,359 | - | 145,089 | - | (469,270) | - | (469,270) |
| Instructional staff services | 472,260 | - | - | - | (472,260) | - | (472,260) |
| Administration services | 1,716,005 | - | - | - | (1,716,005) | - | (1,716,005) |
| Operation & maintenance of plant services | 1,271,608 | 6,735 | - | - | (1,264,873) | - | (1,264,873) |
| Transportation services | 838,583 | 62,061 | 56,121 | - | (720,401) | - | (720,401) |
| | <u>4,912,815</u> | <u>68,796</u> | <u>201,210</u> | <u>-</u> | <u>(4,642,809)</u> | <u>-</u> | <u>(4,642,809)</u> |
| Other expenditures: | | | | | | | |
| Facilities acquisition | 142,789 | - | - | 677,574 | 534,785 | - | 534,785 |
| Long-term debt interest | 756,131 | - | 13,791 | - | (742,340) | - | (742,340) |
| AEA flowthrough | 596,354 | - | 596,354 | - | - | - | - |
| Depreciation (unallocated)* | 772,134 | - | - | - | (772,134) | - | (772,134) |
| | <u>2,267,408</u> | <u>-</u> | <u>610,145</u> | <u>677,574</u> | <u>(979,689)</u> | <u>-</u> | <u>(979,689)</u> |
| Total governmental activities | 19,117,444 | 1,970,943 | 2,474,387 | 677,574 | (13,994,540) | - | (13,994,540) |
| Business-Type activities: | | | | | | | |
| Non-instructional programs: | | | | | | | |
| Nutrition services | 842,682 | 422,998 | 386,697 | - | - | (32,987) | (32,987) |
| Total | \$ 842,682 | 422,998 | 386,697 | - | - | (32,987) | (32,987) |
| Total | \$ 19,960,126 | 2,393,941 | 2,861,084 | 677,574 | (13,994,540) | (32,987) | (14,027,527) |
| General Revenues: | | | | | | | |
| Property and other tax levied for: | | | | | | | |
| General purposes | | | | | \$ 4,927,460 | - | 4,927,460 |
| Capital outlay | | | | | 491,989 | - | 491,989 |
| Statewide sales, services and use tax | | | | | 1,348,141 | - | 1,348,141 |
| Unrestricted state grants | | | | | 7,145,633 | - | 7,145,633 |
| Unrestricted investment earnings | | | | | 15,975 | 778 | 16,753 |
| Other | | | | | 25,119 | - | 25,119 |
| Transfers | | | | | 19,992 | (19,992) | - |
| Total general revenues | | | | | <u>13,974,309</u> | <u>(19,214)</u> | <u>13,955,095</u> |
| Change in net position | | | | | (20,231) | (52,201) | (72,432) |
| Net position beginning of year restated | | | | | 6,274,812 | 229,907 | 6,504,719 |
| Net position end of year | | | | | <u>\$ 6,254,581</u> | <u>177,706</u> | <u>6,432,287</u> |

* This amount excludes the depreciation that is included in the direct expense of the various programs

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
YEAR ENDED JUNE 30, 2015**

| | General | Capital Projects | Debt Service | Nonmajor Governmental | Total |
|---|--------------------------|----------------------|-------------------|--------------------------|-----------------------|
| Assets | | | | | |
| Cash, cash equivalents and pooled investments | \$ 4,364,652 | 2,150,871 | 10,323 | 1,037,298 | 7,563,144 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | 49,835 | 5,598 | - | 5,068 | 60,501 |
| Succeeding year | 4,604,786 | 483,864 | - | 343,579 | 5,432,229 |
| Accounts | 200 | 6,128 | - | 22,963 | 29,291 |
| Accrued interest | 160 | 1,040 | - | - | 1,200 |
| Due from other governments | 1,036,370 | 104,790 | - | - | 1,141,160 |
| Prepaid expenses | 47,035 | - | - | 8,101 | 55,136 |
| Total assets | <u>\$ 10,103,038</u> | <u>2,752,291</u> | <u>10,323</u> | <u>1,417,009</u> | <u>14,282,661</u> |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 249,431 | - | - | 11,088 | 260,519 |
| Salaries & benefits payable | 1,629,792 | - | - | 1,909 | 1,631,701 |
| Total liabilities | <u>1,879,223</u> | <u>-</u> | <u>-</u> | <u>12,997</u> | <u>1,892,220</u> |
| Deferred inflows of resources: | | | | | |
| Unavailable revenues: | | | | | |
| Succeeding year property tax revenue | 4,604,786 | 483,864 | - | 343,579 | 5,432,229 |
| Succeeding year income surtax revenue | 692,474 | - | - | - | 692,474 |
| Total deferred inflows of resources | <u>5,297,260</u> | <u>483,864</u> | <u>-</u> | <u>343,579</u> | <u>6,124,703</u> |
| Fund balances: | | | | | |
| Nonspendable - prepaids | 47,035 | - | - | 8,101 | 55,136 |
| Restricted for: | | | | | |
| Categorical funding | 407,478 | - | - | - | 407,478 |
| Donated purposes | 41,283 | - | - | - | 41,283 |
| Debt service | - | 878,470 | 10,323 | - | 888,793 |
| Capital projects | - | 940,712 | - | - | 940,712 |
| Physical plant and equipment | - | 449,245 | - | - | 449,245 |
| Management levy purposes | - | - | - | 918,863 | 918,863 |
| Student activities | - | - | - | 133,469 | 133,469 |
| Unassigned | 2,430,759 | - | - | - | 2,430,759 |
| Total fund balances | <u>2,926,555</u> | <u>2,268,427</u> | <u>10,323</u> | <u>1,060,433</u> | <u>6,265,738</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 10,103,038</u> | <u>2,752,291</u> | <u>10,323</u> | <u>1,417,009</u> | <u>14,282,661</u> |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2015**

| | | |
|--|--|--------------|
| Total fund balances of governmental funds | | \$ 6,265,738 |
|--|--|--------------|

Amounts reported for governmental activities in the Statement of Net Position are different because:

| | | |
|--|--|------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | | 19,314,814 |
|--|--|------------|

| | | |
|--|--|---------|
| Payments to escrow in excess of loan proceeds received to advance refund debt are not reported as deferred outflow of resources in the governmental funds. | | 864,396 |
|--|--|---------|

| | | |
|--|--|----------|
| Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. | | (81,243) |
|--|--|----------|

| | | |
|--|--------------------|-----------|
| Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows: | | |
| Deferred outflows of resources | \$ 1,471,275 | |
| Deferred inflows of resources | <u>(2,262,251)</u> | (790,976) |

| | | |
|--|--|---------------------|
| Long-term liabilities, including bonds and notes payable, compensated absences payable, other postemployment benefits payable and net pension liability are not due and payable in the current period and, therefore, are not reported as liabilities of the governmental funds. | | <u>(19,318,148)</u> |
|--|--|---------------------|

| | | |
|--|--|----------------------------|
| Net position of governmental activities | | <u><u>\$ 6,254,581</u></u> |
|--|--|----------------------------|

HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

| | General | Capital Projects | Debt Service | Nonmajor Governmental | Total |
|--|---------------------|---------------------|------------------|--------------------------|-------------------|
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local Tax | \$ 5,178,376 | 491,989 | - | 454,760 | 6,125,125 |
| Tuition | 1,112,376 | - | - | - | 1,112,376 |
| Other | 443,027 | 677,574 | 13,791 | 398,546 | 1,532,938 |
| State sources | 8,270,400 | 1,348,141 | - | 200,000 | 9,818,541 |
| Federal sources | 475,526 | - | - | - | 475,526 |
| Total revenues | <u>15,479,705</u> | <u>2,517,704</u> | <u>13,791</u> | <u>1,053,306</u> | <u>19,064,506</u> |
| Expenditures: | | | | | |
| Current | | | | | |
| Instruction: | | | | | |
| Regular instruction | 7,986,220 | 32,935 | - | 83,091 | 8,102,246 |
| Special instruction | 2,336,968 | - | - | - | 2,336,968 |
| Other instruction | 1,235,346 | - | - | 590,034 | 1,825,380 |
| | <u>11,558,534</u> | <u>32,935</u> | <u>-</u> | <u>673,125</u> | <u>12,264,594</u> |
| Support services: | | | | | |
| Student services | 600,823 | - | - | - | 600,823 |
| Instructional staff services | 463,618 | 17,827 | - | - | 481,445 |
| Administration services | 1,570,275 | - | 3,500 | 151,559 | 1,725,334 |
| Operation and maintenance of plant services | 1,187,690 | 5,818 | - | 60,414 | 1,253,922 |
| Transportation services | 732,637 | 123,874 | - | 25,436 | 881,947 |
| | <u>4,555,043</u> | <u>147,519</u> | <u>3,500</u> | <u>237,409</u> | <u>4,943,471</u> |
| Other expenditures: | | | | | |
| Facilities acquisition | - | 1,598,039 | - | - | 1,598,039 |
| Long-term debt: | | | | | |
| Payments of escrow agent for refunding | - | - | 535,430 | - | 535,430 |
| Principal | - | - | 5,385,000 | - | 5,385,000 |
| Interest and fiscal charges | - | - | 721,892 | - | 721,892 |
| AEA flowthrough | 596,354 | - | - | - | 596,354 |
| | <u>596,354</u> | <u>1,598,039</u> | <u>6,642,322</u> | <u>-</u> | <u>8,836,715</u> |
| Total expenditures | <u>16,709,931</u> | <u>1,778,493</u> | <u>6,645,822</u> | <u>910,534</u> | <u>26,044,780</u> |
| Excess (deficiency) of revenues over (under) expenditures | (1,230,226) | 739,211 | (6,632,031) | 142,772 | (6,980,274) |
| Other financing sources (uses): | | | | | |
| Sale of general fixed assets | 12,715 | - | - | - | 12,715 |
| Bond proceeds | - | - | 6,705,000 | - | 6,705,000 |
| Payment to escrow agent for refunding | - | - | (6,705,000) | - | (6,705,000) |
| Operating transfers in | 19,992 | - | 1,694,260 | - | 1,714,252 |
| Operating transfers out | - | (1,694,260) | - | - | (1,694,260) |
| Total other financing sources(uses) | <u>32,707</u> | <u>(1,694,260)</u> | <u>1,694,260</u> | <u>-</u> | <u>32,707</u> |
| Net change in fund balances | (1,197,519) | (955,049) | (4,937,771) | 142,772 | (6,947,567) |
| Fund balances beginning of year | <u>4,124,074</u> | <u>3,223,476</u> | <u>4,948,094</u> | <u>917,661</u> | <u>13,213,305</u> |
| Fund balances end of year | <u>\$ 2,926,555</u> | <u>2,268,427</u> | <u>10,323</u> | <u>1,060,433</u> | <u>6,265,738</u> |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

Net change in fund balances - total governmental funds \$ (6,947,567)

*Amounts reported for governmental activities in the
Statement of Activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays depreciation expense and adjustments for disposals in the year are as follows:

| | | |
|---------------------------------|------------------|---------|
| Expenditures for capital assets | \$ 1,606,856 | |
| Depreciation expense | <u>(925,912)</u> | 680,944 |

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position. Issuances and repayments are as follows:

| | | |
|--|------------------|-----------|
| Issued | \$ (6,705,000) | |
| Repaid | 5,385,000 | |
| Payments to escrow for advanced debt repayment | <u>7,240,430</u> | 5,920,430 |

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (34,239)

The current year District employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as deferred outflow of resources in the Statement of Net Position 913,030

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds

| | | |
|--------------------------------|-----------------|------------------|
| Compensated absences | \$ (7,608) | |
| Pension expense | (498,190) | |
| Other post employment benefits | <u>(47,031)</u> | <u>(552,829)</u> |

Change in net position of governmental activities \$ (20,231)

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2015**

| | <u>School Nutrition</u> |
|---|-----------------------------|
| Assets | |
| Current assets: | |
| Cash, cash equivalents and pooled investments | \$ 307,057 |
| Due from other governments | 26,928 |
| Inventories | <u>19,527</u> |
| Total current assets | 353,512 |
| Noncurrent assets: | |
| Capital assets, net of accumulated depreciation | <u>78,889</u> |
| Total assets | 432,401 |
| Deferred Outflows of Resources | |
| Pension related deferred outflows | 41,476 |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | 453 |
| Salaries and benefits and payable | 50,155 |
| Unearned revenue | <u>14,718</u> |
| Total current liabilities | 65,326 |
| Noncurrent liabilities: | |
| Net pension liability | <u>167,113</u> |
| Total liabilities | 232,439 |
| Deferred Inflows of Resources | |
| Pension related deferred inflows | 63,732 |
| Net Position | |
| Investment in capital assets | 78,889 |
| Unrestricted | <u>98,817</u> |
| Total net position | <u>\$ 177,706</u> |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2015**

| | School Nutrition |
|---|---------------------|
| Operating revenue: | |
| Local sources: | |
| Charges for service | \$ 422,998 |
| Operating expenses: | |
| Non-instructional programs: | |
| Food service operations: | |
| Salaries | 295,954 |
| Benefits | 37,944 |
| Purchased services | 2,888 |
| Supplies | 485,975 |
| Depreciation | 19,921 |
| Total operating expenses | 842,682 |
| Operating loss | (419,684) |
| Non-operating revenue (expenses): | |
| State sources | 7,264 |
| Federal sources | 379,433 |
| Interest on investments | 778 |
| Total non-operating revenue | 387,475 |
| Change in net position before transfers | (32,209) |
| Transfers out | (19,992) |
| Change in net position | (52,201) |
| Net position beginning of year restated | 229,907 |
| Net position end of year | \$ 177,706 |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2015**

| | School Nutrition |
|---|---------------------|
| Cash flows from operating activities: | |
| Cash received from sale of lunches and breakfasts | \$ 425,267 |
| Cash payments to employees for services | (342,615) |
| Cash payments to suppliers for goods or services | (445,085) |
| Net cash used by operating activities | (362,433) |
| Cash flows from non-capital financing activities: | |
| State grants received | 7,264 |
| Federal grants received | 301,875 |
| Transfers to the general fund | (19,992) |
| Net cash provided by non-capital financing sources | 289,147 |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (5,327) |
| Net cash used by capital and related financing activities | (5,327) |
| Cash flows from investing activities: | |
| Interest on investments | 778 |
| Net increase in cash and cash equivalents | (77,835) |
| Cash and cash equivalents at beginning of year | 384,892 |
| Cash and cash equivalents at end of year | \$ 307,057 |

Reconciliation of operating loss to net cash used by operating activities:

| | |
|---------------------------------------|--------------|
| Operating loss | \$ (419,684) |
| Commodities used | 50,630 |
| Depreciation | 19,921 |
| (Increase) decrease: | |
| Receivables | 200 |
| Inventories | (6,282) |
| Pension related deferred outflows | (16,853) |
| Increase (decrease) in: | |
| Accounts payable | (570) |
| Salaries and benefits payable | 2,997 |
| Unearned revenue | 2,069 |
| Net pension liability | (58,593) |
| Pension related deferred inflows | 63,732 |
| Net cash used by operating activities | \$ (362,433) |

Non-cash investing, capital and financing activities

During the year ended June 30, 2015 the District received \$50,630 of federal commodities

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2015**

| | Private Purpose Trust | |
|---|--------------------------|---------------|
| | <u>Scholarship</u> | <u>Agency</u> |
| Assets | | |
| Cash, cash equivalents and pooled investments | \$ 177,915 | 9,358 |
| Total assets | <u>177,915</u> | <u>9,358</u> |
| Liabilities | | |
| Due to other governments | - | 9,358 |
| Total liabilities | <u>-</u> | <u>9,358</u> |
| Net Position | | |
| Reserved for scholarships | <u>\$ 177,915</u> | <u>-</u> |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2015**

| | | Private Purpose Trust <hr/> Scholarship |
|--------------------------------|----|---|
| Additions: | | |
| Local sources: | | |
| Gifts and contributions | \$ | 5,756 |
| Interest income | | 108 |
| Total additions | | <hr/> 5,864 |
| Deductions: | | |
| Instruction: | | |
| Regular | | |
| Scholarships awarded | | <hr/> 8,224 |
| Change in net position | | (2,360) |
| Net position beginning of year | | <hr/> 180,275 |
| Net position end of year | \$ | <hr/> <hr/> 177,915 |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 1 Summary of Significant Accounting Policies

The Harlan Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Harlan, Iowa and the predominate agricultural territory in Harrison and Shelby Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Harlan Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Harlan Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in jointly governed organizations that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Harrison and Shelby Counties Assessor's Conference Boards.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the District's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 1 Summary of Significant Accounting Policies (continued)

B. Basis of Presentation – (continued)

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position that does not meet the definition of the preceding two categories. Unrestricted net position is often subject to constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's long term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and all other capital assets.

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 1 Summary of Significant Accounting Policies (continued)

B. Basis of Presentation - (continued)

The District also reports fiduciary funds which focus on net position and changes in net position. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 1 Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting - (continued)

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents– The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity - (continued)

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2014.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| <u>Asset Class</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| Land | \$ 1,500 |
| Buildings | 1,500 |
| Improvements other than buildings | 1,500 |
| Furniture and equipment: | |
| School Nutrition Fund Equipment | 500 |
| Other furniture and equipment | 1,500 |

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives</u> |
|-----------------------------------|-------------------------------|
| Buildings | 50 years |
| Improvements other than buildings | 20-50 years |
| Furniture and equipment | 5-15 years |

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity - (continued)

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Unearned Revenue - Nutrition fund unearned revenue consists of student meal charges collected but not yet earned.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2015. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivables that will not be recognized as revenue until the year for which it is levied, succeeding year income surtax that will not be recognized as revenue until available, and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity - (continued)

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts not in spendable form, such as inventories and prepaid expenses.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resource are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

NOTE 2 Cash and Pooled Investments

The District's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance, or by the State Sinking Fund, in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2015, the District had investments in the Iowa Schools Joint Investment Trust District Government Obligations Portfolio which are valued at an amortized cost of \$932 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor's Financial Services.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 3 Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

| Transfer to | Transfer from | Amount |
|--------------|------------------|---------------------|
| Debt Service | Capital Projects | \$ 1,694,261 |
| General | School Nutrition | 19,992 |
| | | <u>\$ 1,714,253</u> |

Transfers generally move revenues from the fund statutorily required to collect the resources, to the fund statutorily required to expend the resources.

NOTE 4 Capital Assets

Capital assets activity for the year ended June 30, 2015 was as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|------------------|----------------|---------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 25,700 | - | - | 25,700 |
| Construction in progress | 860,796 | - | 860,796 | - |
| | <u>886,496</u> | - | <u>860,796</u> | <u>25,700</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 23,121,406 | 2,304,725 | 30,367 | 25,395,764 |
| Improvements other than buildings | 680,639 | - | - | 680,639 |
| Furniture and equipment | 4,175,922 | 162,927 | 485,844 | 3,853,005 |
| Total capital assets being depreciated | <u>27,977,967</u> | <u>2,467,652</u> | <u>516,211</u> | <u>29,929,408</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 6,201,515 | 664,544 | 30,367 | 6,835,692 |
| Improvements other than buildings | 470,839 | 11,019 | - | 481,858 |
| Furniture and equipment | 3,558,239 | 250,349 | 485,844 | 3,322,744 |
| Total accumulated depreciation | <u>10,230,593</u> | <u>925,912</u> | <u>516,211</u> | <u>10,640,294</u> |
| Total capital assets being depreciated, net | <u>17,747,374</u> | <u>1,541,740</u> | <u>-</u> | <u>19,289,114</u> |
| Governmental activities capital assets, net | <u>\$ 18,633,870</u> | <u>1,541,740</u> | <u>860,796</u> | <u>19,314,814</u> |
| Business-type activities | | | | |
| Furniture and equipment | \$ 305,759 | 5,327 | 20,097 | 290,989 |
| Less accumulated depreciation | <u>212,276</u> | <u>19,921</u> | <u>20,097</u> | <u>212,100</u> |
| Business-type activities capital assets, net | <u>\$ 93,483</u> | <u>(14,594)</u> | <u>-</u> | <u>78,889</u> |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 4 Capital Assets - continued

Depreciation expense was charged by the District as follows:

| | | |
|--|----|----------------|
| Governmental activities: | | |
| Instruction: | | |
| Regular | \$ | 7,469 |
| Other | | 5,852 |
| Support services: | | |
| Student services | | 538 |
| Operation and maintenance of plant | | 32,167 |
| Transportation | | 107,752 |
| | | <u>153,778</u> |
| Unallocated | | <u>772,134</u> |
| Total depreciation expense - governmental activities | \$ | <u>925,912</u> |
| Business-type activities: | | |
| Food services | \$ | <u>19,921</u> |

NOTE 5 Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2015 are summarized as follows:

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Due Within One Year |
|------------------------------------|---------------------------------|------------------|-------------------|---------------------------|---------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 5,385,000 | - | 5,385,000 | - | - |
| Unamortized discount | (34,806) | 34,806 | - | - | - |
| General obligation refunding bonds | 5,010,000 | - | - | 5,010,000 | 630,000 |
| Unamortized premium | 89,769 | - | 9,974 | 79,795 | - |
| Sales tax bonds | 6,330,000 | - | 6,330,000 | - | - |
| Unamortized discount | (79,164) | 79,164 | - | - | - |
| Sales tax refunding bonds | - | 6,705,000 | - | 6,705,000 | 115,000 |
| Quality Zond Academy bonds | 1,000,000 | - | - | 1,000,000 | 1,000,000 |
| Compensated absences | 72,011 | 79,619 | 72,011 | 79,619 | 79,619 |
| Net pension liability | 8,011,712 | - | 2,079,826 | 5,931,886 | - |
| Net OPEB liability | 464,817 | 96,848 | 49,817 | 511,848 | 41,520 |
| Total | <u>\$ 26,249,339</u> | <u>6,995,437</u> | <u>13,926,628</u> | <u>19,318,148</u> | <u>1,866,139</u> |
| Business type activities | | | | | |
| Net pension liability | <u>\$ 225,706</u> | <u>-</u> | <u>58,593</u> | <u>167,113</u> | <u>-</u> |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 5 Long-Term Liabilities (continued)

Bonds Payable

Details of the District's June 30, 2015 general obligation bonded indebtedness are as follows:

| Year Ending June 30, | Bond Issue of December 11, 2012 | | | |
|----------------------------|---------------------------------|---------------------|----------------|-------------------------|
| | Interest Rates | Principal | Interest | Premium Amortization |
| 2016 | 2.00% | \$ 630,000 | 82,432 | 9,974 |
| 2017 | 2.00% | 645,000 | 69,832 | 9,974 |
| 2018 | 2.00% | 660,000 | 56,932 | 9,974 |
| 2019 | 1.10% | 675,000 | 43,732 | 9,974 |
| 2020 | 1.35% | 685,000 | 36,308 | 9,974 |
| 2021-2023 | 1.50-1.70% | 1,715,000 | 49,052 | 29,925 |
| | | <u>\$ 5,010,000</u> | <u>338,288</u> | <u>79,795</u> |

Sales Tax Bond

Details of the District's June 30, 2015 statewide sales, services and use tax revenue bonded indebtedness are as follows:

| Year Ending June 30, | Bond Issue of February 5, 2015 | | |
|----------------------------|--------------------------------|---------------------|------------------|
| | Interest Rates | Principal | Interest |
| 2016 | 2.73% | \$ 115,000 | 164,190 |
| 2017 | 2.73% | 185,000 | 177,383 |
| 2018 | 2.73% | 190,000 | 172,264 |
| 2019 | 2.73% | 200,000 | 166,940 |
| 2020 | 2.73% | 205,000 | 161,411 |
| 2021-2025 | 2.73% | 1,640,000 | 712,254 |
| 2026-2030 | 2.73% | 4,170,000 | 290,062 |
| | | <u>\$ 6,705,000</u> | <u>1,844,504</u> |

The District has pledged future statewide sales, services and use tax revenues to repay the \$6,705,000 bonds issued February 5, 2015. The bonds were issued for the purpose of refunding the May 2009 bonds. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 100 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bond is \$8,549,534. For the current year, interest paid on the refunded bonds and total statewide sales, services and use tax revenue were \$346,185 and \$1,348,141, respectively. There were no payments made on the refunding bonds.

There are no reserve requirements on the new bonds.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 5 Long-Term Liabilities (continued)

Advanced Debt Refunding

On February 5, 2015, the District issued \$6,705,000 in revenue bonds with interest rates of 2.73% per annum. A total of \$7,240,430, which includes the refunding note proceeds was placed in escrow to decrease the \$6,330,000 revenue bond issued in May 2009. The old debt has a final call date of July 1, 2018. The escrow balance of \$7,240,430, and the refunded debt outstanding of \$6,330,000 at June 30, 2015 are not reflected in the District's financial statement.

The difference between the cash flow required to service the old debt, and the cash flow required to service the new debt is \$1,067,500.

The District obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$871,000.

Qualified Zone Academy Bond

During the year ended June 30, 2002, the District issued zero interest Qualified Zone Academy Bonds (QZAB). Annual transfers of \$58,455 are made to an escrow agent to pay the indebtedness due November 11, 2015, of \$1,000,000. Bond proceeds are to be used only for the equipping, rehabilitation and repairs of the school designated as the "Qualified Zone Academy." The school is in compliance with the above provisions.

NOTE 6 Pension Plan

Plan Description - IPERS membership is mandatory for employees of the District, except for those covered by another retirement system. Employees of the District are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 6 Pension Plan - (continued)

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the District contributed 8.93 percent for a total rate of 14.88 percent.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 6 Pension Plan - (continued)

The District's contributions to IPERS for the year ended June 30, 2015 were \$938,779.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the District reported a liability of \$6,098,999 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the District's proportion was .150701 percent, which was a decrease of .005215 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$512,225. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 66,284 | \$ - |
| Changes in assumptions | 269,163 | - |
| Net difference between projected and actual earnings on pension plan investments | 238,525 | - |
| Changes in proportion and differences between District contributions and proportionate share of contributions | - | 2,325,983 |
| District contributions subsequent to the measurement date | 938,779 | - |
| Total | \$ 1,512,751 | \$ 2,325,983 |

\$938,779 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 6 Pension Plan - (continued)

| | Year Ended June 30, | |
|-------|------------------------|-------------|
| | | |
| 2016 | \$ | (447,390) |
| 2017 | | (447,390) |
| 2018 | | (447,390) |
| 2019 | | (447,390) |
| 2020 | | 37,550 |
| Total | \$ | (1,752,010) |

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | | |
|--|--|--|
| Rate of Inflation (effective June 30, 2014) | 3.00 percent | |
| Salary increases (effective June 30, 2014) | 4.00 percent, average, including inflation | |
| Investment rate of return (effective June 30, 1996) | 7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation | |

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|-------------------------|---|
| US Equity | 23% | 6.31 |
| Non US Equity | 15 | 6.76 |
| Private Equity | 13 | 11.34 |
| Real Estate | 8 | 3.52 |
| Core Plus Fixed Income | 28 | 2.06 |
| Credit Opportunities | 5 | 3.67 |
| TIPS | 5 | 1.92 |
| Other Real Assets | 2 | 6.27 |
| Cash | 1 | (0.69) |
| Total | 100% | |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 6 Pension Plan - (continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

| | 1% Decrease (6.5%) | Discount Rate (7.5%) | 1% Increase (8.5%) |
|--|--------------------------|----------------------------|--------------------------|
| District's proportionate share of the net pension liability | \$ 11,523,888 | \$ 6,098,999 | \$ 1,519,831 |

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

NOTE 7 Termination Benefits

In October 2014, the District approved a voluntary early retirement plan for employees. The plan was offered for one year. Eligible employees must have completed at least 10 years of full time service to the District, must have reached the age of fifty-five by June 30, 2014, and be first year eligible for IPERS benefits. The retirement benefit equaled a one-time payment of \$20,000 to a deferred plan on behalf of each electing employee. Three employees were granted the benefit. Early retirement expenditures for the year ended June 30, 2015 totaled \$60,000, with no liability outstanding.

NOTE 8 Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 9 Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. The District pays for all or a portion of active employees' coverage. Retired members can continue their coverage at their own expense and also receive an explicit subsidy of \$83 per month staying within plan coverage and \$168 per month if they elect to discontinue coverage within the district plan. For new retirees after June 30, 2015, the explicit subsidy increases to \$125 per month. There are 121 active and 25 retired members in the plan. Participants must be age 55 or older at retirement.

The medical and prescription drug coverage is provided through a fully-insured plan with Wellmark. The same premium is paid for retirees under age 65 for the medical and prescription drug benefit as active employees, which results in an implicit subsidy. The OPEB liability includes both the explicit and the implicit subsidies.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2015, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

| | |
|--|-------------------|
| Annual required contribution | \$ 148,163 |
| Interest on net OPEB obligation | 11,551 |
| Adjustment to annual required contribution | <u>(63,606)</u> |
| Annual OPEB cost | 96,108 |
| Contributions made | <u>(49,077)</u> |
| Increase in net OPEB obligation | 47,031 |
| Net OPEB obligation, beginning of year | <u>464,817</u> |
| Net OPEB obligation, end of year | <u>\$ 511,848</u> |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2014. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2015.

For the year ended June 30, 2015, the District made an explicit contribution of \$25,809 and an implicit contribution of \$23,268 to the medical plan. Plan members eligible for benefits contributed \$88,833, or 77.5% of the premium costs.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 9 Other Postemployment Benefits (OPEB) – Continued

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2015 are summarized as follows:

| Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|------------------------|---------------------|--|------------------------|
| 2010 | \$ 100,757 | 36.7 % | \$ 126,492 |
| 2011 | 101,287 | 31.5 % | 195,820 |
| 2012 | 125,784 | 30.9 % | 282,707 |
| 2013 | 124,759 | 29.9 % | 370,114 |
| 2015 | 132,424 | 28.5 % | 464,817 |
| 2016 | 98,894 | 49.6 % | 511,848 |

Funding Status and Funding Progress - As of July 1, 2014, the most recent actuarial valuation for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$570,069, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$570,069. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8,029,384, and the ratio of the UAAL to covered payroll was 7.10%. As of June 30, 2015, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2014 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

The most recent aging curve study was presented by the Society of Actuaries in February 2006. This study provided the basis for the "aging cost assumption" used in the valuation.

Projected claim costs of the medical plan are \$583 per month for retirees. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 10 Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$596,354 for the year ended June 30, 2015 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

NOTE 11 Lease Agreements

The District has signed operating lease agreements for the rental of computer equipment. Rent expense for the year ended June 30, 2015 totaled \$375,937. Future required minimum lease payments are as follows:

| Year Ending June 30, | Amount |
|-------------------------|------------|
| 2016 | \$ 367,185 |
| 2017 | 149,885 |
| 2018 | 70,463 |
| | \$ 587,533 |

NOTE 12 Categorical Funding

The District ending balances for categorical funding by project as of the year ended June 30, 2015 are as follows:

| Project | Amount |
|--|------------|
| Limited English proficiency | \$ 46,280 |
| Home school assistance | 215,657 |
| At-risk formula supplementary weighting | 47,819 |
| Gifted and talented | 81,897 |
| Teachers compensation | 53 |
| Mentoring | 689 |
| Beginning administrator mentoring | 2,102 |
| Textbook aid - non public students | 413 |
| Teacher quality professional development | 12,568 |
| | \$ 407,478 |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 13 Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - and Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position for governmental and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

| | <u>Governmental Activities</u> | <u>Business type Activities</u> |
|--|------------------------------------|-------------------------------------|
| Net position June 30, 2014, as previously reported | \$ 13,412,513 | \$ 430,990 |
| Net pension liability at June 30, 2014 | (8,011,711) | (225,706) |
| Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date | <u>874,010</u> | <u>24,623</u> |
| Net position July 1, 2014, as restated | <u>\$ 6,274,812</u> | <u>\$ 229,907</u> |

REQUIRED SUPPLEMENTARY INFORMATION

**HARLAN COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN BALANCES – BUDGET AND ACTUAL –
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

| | Governmental Fund Types Actual | Proprietary Fund Type Actual | Total Actual | Budgeted Amounts | | Final to Actual Variance - Positive (Negative) |
|--|--------------------------------------|------------------------------------|-------------------|-------------------|--------------------|--|
| | | | | Original | Final | |
| Revenues: | | | | | | |
| Local sources | \$ 8,770,439 | 423,776 | 9,194,215 | 10,076,322 | 10,076,322 | (882,107) |
| State sources | 9,818,541 | 7,264 | 9,825,805 | 8,832,735 | 8,832,735 | 993,070 |
| Federal sources | 475,526 | 379,433 | 854,959 | 810,000 | 810,000 | 44,959 |
| Total receipts | <u>19,064,506</u> | <u>810,473</u> | <u>19,874,979</u> | <u>19,719,057</u> | <u>19,719,057</u> | <u>155,922</u> |
| Expenditures: | | | | | | |
| Instruction | 12,264,594 | - | 12,264,594 | 13,110,435 | 13,110,435 | 845,841 |
| Support services | 4,943,471 | - | 4,943,471 | 5,190,826 | 5,190,826 | 247,355 |
| Non-instructional programs | - | 842,682 | 842,682 | 915,369 | 915,369 | 72,687 |
| Other expenditures | 8,836,715 | - | 8,836,715 | 7,968,952 | 15,828,986 | 6,992,271 |
| Total disbursements | <u>26,044,780</u> | <u>842,682</u> | <u>26,887,462</u> | <u>27,185,582</u> | <u>35,045,616</u> | <u>8,158,154</u> |
| Excess (deficiency) of revenue over (under) expenditures | (6,980,274) | (32,209) | (7,012,483) | (7,466,525) | (15,326,559) | 8,314,076 |
| Other financing uses, net | <u>32,707</u> | <u>(19,992)</u> | <u>12,715</u> | <u>-</u> | <u>-</u> | <u>12,715</u> |
| Excess(deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | (6,947,567) | (52,201) | (6,999,768) | (7,466,525) | (15,326,559) | 8,326,791 |
| Balances beginning of year | <u>13,213,305</u> | <u>229,907</u> | <u>13,443,212</u> | <u>12,207,989</u> | <u>12,207,989</u> | <u>1,235,223</u> |
| Balances end of year | <u>\$ 6,265,738</u> | <u>177,706</u> | <u>6,443,444</u> | <u>4,741,464</u> | <u>(3,118,570)</u> | <u>9,562,014</u> |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2015**

This budgetary comparison is presented as Required Supplementary Information in accordance with *Governmental Accounting Standards Board* Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year ended June 30, 2015, the District adopted one budget amendment increasing budgeted expenditures by \$7,860,034.

During the year ended June 30, 2015, expenditures did not exceed the amounts budgeted and the District did not exceed its General Fund unspent authorized budget.

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FISCAL YEAR*
(IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION

| | |
|--|-----------|
| District's proportion of the net pension liability | 0.150701% |
| District's proportionate share of the net pension liability | \$ 6,099 |
| District's covered-employee payroll | \$ 10,057 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 60.64% |
| Plan fiduciary net position as a percentage of the total pension liability | 87.61% |

* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

See Accompanying Independent Auditors' Report

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS
(IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|-----------|--------|-------|-------|-------|--------|--------|-------|-------|-------|
| Statutorily required contribution | \$ 939 | 898 | 815 | 730 | 639 | 669 | 662 | 548 | 473 | 451 |
| Contributions in relation to the statutorily required contribution | 939 | 898 | 815 | 730 | 639 | 669 | 662 | 548 | 473 | 451 |
| Contribution deficiency (excess) | \$ - | - | - | - | - | - | - | - | - | - |
| City's covered-employee payroll | \$ 10,508 | 10,057 | 9,405 | 9,060 | 9,198 | 10,070 | 10,424 | 9,055 | 8,227 | 7,844 |
| Contributions as a percentage of covered-employee payroll | 8.93% | 8.93% | 8.67% | 8.06% | 6.95% | 6.65% | 6.35% | 6.05% | 5.75% | 5.75% |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2015**

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN (In Thousands)
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

| Year Ended 30-Jun | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|-------------------|--------------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|---------------------|---|
| 2010 | Jul 1, 2008 | - \$ | 903 \$ | 903 | 0.0% | \$ 9,736 | 9.23% |
| 2011 | Jul 1, 2008 | - | 675 | 675 | 0.0% | 8,890 | 7.59% |
| 2012 | Jul 1, 2011 | - | 890 | 890 | 0.0% | 8,736 | 10.19% |
| 2013 | Jul 1, 2011 | - | 854 | 854 | 0.0% | 9,185 | 9.30% |
| 2014 | Jul 1, 2011 | - | 809 | 809 | 0.0% | 9,812 | 8.18% |
| 2015 | Jul 1, 2014 | - | 570 | 570 | 0.0% | 8,029 | 7.10% |

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015**

| Assets | Special Revenue | | Total |
|---|---------------------|---------------------|------------------|
| | Management Levy | Student Activity | |
| Assets: | | | |
| Cash, cash equivalents and pooled investments \$ | 913,795 | 123,503 | 1,037,298 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 5,068 | - | 5,068 |
| Succeeding year | 343,579 | - | 343,579 |
| Accounts | - | 22,963 | 22,963 |
| Prepaid expenses | 8,101 | - | 8,101 |
| | 8,101 | - | 8,101 |
| Total assets | \$ 1,270,543 | 146,466 | 1,417,009 |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ - | 11,088 | 11,088 |
| Salaries and benefits payable | - | 1,909 | 1,909 |
| Total liabilities | - | 12,997 | 12,997 |
| Deferred inflows of resources: | | | |
| Unavailable succeeding year property tax revenue | 343,579 | - | 343,579 |
| Fund balances: | | | |
| Nonspendable: | | | |
| Prepays | 8,101 | - | 8,101 |
| Restricted for: | | | |
| Management levy purposes | 918,863 | - | 918,863 |
| Student activities | - | 133,469 | 133,469 |
| Total fund balances | 926,964 | 133,469 | 1,060,433 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 1,270,543 | 146,466 | 1,417,009 |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015**

| | Special Revenue | | |
|---|--------------------|---------------------|-----------|
| | Management Levy | Student Activity | Total |
| Revenues: | | | |
| Local sources: | | | |
| Local Tax | \$ 454,760 | - | 454,760 |
| Other | 13,879 | 384,667 | 398,546 |
| State sources | - | 200,000 | 200,000 |
| Total revenues | 468,639 | 584,667 | 1,053,306 |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular instruction | 83,091 | - | 83,091 |
| Other instruction | - | 590,034 | 590,034 |
| | 83,091 | 590,034 | 673,125 |
| Support services: | | | |
| Administration services | 151,559 | - | 151,559 |
| Operation and maintenance of plant services | 60,414 | - | 60,414 |
| Transportation services | 25,436 | - | 25,436 |
| | 237,409 | - | 237,409 |
| Total expenditures | 320,500 | 590,034 | 910,534 |
| Net change in fund balances | 148,139 | (5,367) | 142,772 |
| Fund balances beginning of year | 778,825 | 138,836 | 917,661 |
| Fund balances end of year | \$ 926,964 | 133,469 | 1,060,433 |

See Accompanying Independent Auditors' Report

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND - STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2015

| | Balance Beginning of Year | Revenues | Expend- itures | Balance End of Year |
|------------------------------------|---------------------------------|----------------|-------------------|---------------------------|
| Drama | \$ 2,349 | 1,621 | 1,467 | 2,503 |
| HS vocal music | - | 744 | 744 | - |
| MS vocal music | 991 | - | 408 | 583 |
| Show choir | - | 6,430 | 6,430 | - |
| HS instr music | 3,021 | 1,883 | 2,761 | 2,143 |
| HS jazz | - | 1,755 | 1,755 | - |
| MS flag corp | 49 | - | - | 49 |
| HS flag corp | 2,254 | 900 | 190 | 2,964 |
| Athletics | 3,480 | 204,859 | 206,107 | 2,232 |
| Activity tickets | - | 25 | 25 | - |
| Splash splash auto detailing | 1,579 | 1,648 | 1,794 | 1,433 |
| FB holocaust memorial rock project | 872 | - | - | 872 |
| Cheerleaders | 694 | 4,531 | 4,667 | 558 |
| FFA | 14,313 | 103,277 | 107,702 | 9,888 |
| Harpoon | 28,227 | 12,061 | 20,496 | 19,792 |
| Entrepreneurial vending | 537 | 1,924 | 705 | 1,756 |
| National honor society | 12 | 1,446 | 970 | 488 |
| BPA | - | 26,231 | 26,231 | - |
| Science club | 5 | - | - | 5 |
| Foreign language club | 2,837 | 12,301 | 12,255 | 2,883 |
| Student council | 295 | 17,594 | 15,421 | 2,468 |
| Pom pom | 2,165 | 7,013 | 9,178 | - |
| Destination imagination | 1,522 | 900 | - | 2,422 |
| Key Club | 5,177 | 2,093 | 2,933 | 4,337 |
| For the birds | - | 1,918 | 1,310 | 608 |
| FCCLA Club | 2,318 | 1,700 | 1,124 | 2,894 |
| FEA | 133 | - | - | 133 |
| Friends of Rachele | 1,715 | - | - | 1,715 |
| Fundraising | - | 7,156 | 7,156 | - |
| Reserve for categorical | 20 | - | 20 | - |
| Prom | 1,960 | 16,148 | 16,720 | 1,388 |
| HS miscellaneous | 676 | 1,229 | 1,801 | 104 |
| Hosa fund | 264 | 28,309 | 28,573 | - |
| Cyclone corner store | 5,504 | 55,434 | 52,679 | 8,259 |
| Concessions | 2,158 | 19,724 | 19,564 | 2,318 |
| Vending | 8,490 | 1,823 | 5,932 | 4,381 |
| MS cheerleading | 4,133 | 1,423 | 623 | 4,933 |
| MS vending | 9,307 | 2 | - | 9,309 |
| MS student council | 6,068 | 22,009 | 15,878 | 12,199 |
| MS yearbook | 5,911 | 3,541 | 3,564 | 5,888 |
| MS drama | 487 | 118 | - | 605 |
| MS building improvements | 98 | - | - | 98 |
| MS builders club | 281 | - | - | 281 |
| MS student fund | 2,361 | 2,785 | 4,957 | 189 |
| New Park student fund | 8,243 | 12,036 | 7,894 | 12,385 |
| West Ridge student fund | 7,728 | 76 | - | 7,804 |
| West Ridge student store | 602 | - | - | 602 |
| Total | \$ 138,836 | 584,667 | 590,034 | 133,469 |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
CAPITAL PROJECT ACCOUNTS
YEAR ENDED JUNE 30, 2015**

| Assets | Capital Projects | | Total |
|---|--|--|------------------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | |
| Assets: | | | |
| Cash, cash equivalents and pooled investments | \$ 829,794 | 1,321,077 | 2,150,871 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | - | 5,598 | 5,598 |
| Succeeding year | - | 483,864 | 483,864 |
| Accounts | 6,128 | - | 6,128 |
| Accrued interest | - | 1,040 | 1,040 |
| Due from other governments | 104,790 | - | 104,790 |
| | \$ 940,712 | 1,811,579 | 2,752,291 |
| Total assets | \$ 940,712 | 1,811,579 | 2,752,291 |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | |
| Deferred inflows of resources: | | | |
| Unavailable succeeding year property tax revenue | \$ - | 483,864 | 483,864 |
| Fund balances: | | | |
| Restricted for: | | | |
| Debt service | - | 878,470 | 878,470 |
| School infrastructure | 940,712 | - | 940,712 |
| Physical plant and equipment | - | 449,245 | 449,245 |
| Total fund balances | 940,712 | 1,327,715 | 2,268,427 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 940,712 | 1,811,579 | 2,752,291 |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES – CAPITAL PROJECT ACCOUNTS
YEAR ENDED JUNE 30, 2015**

| | Capital Projects | | |
|---|--|--|-------------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | Total |
| Revenues: | | | |
| Local sources: | | | |
| Local Tax | \$ - | 491,989 | 491,989 |
| Other | 568,842 | 108,732 | 677,574 |
| State sources | 1,348,141 | - | 1,348,141 |
| Total revenues | 1,916,983 | 600,721 | 2,517,704 |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular instruction | - | 32,935 | 32,935 |
| Support services: | | | |
| Instructional staff services | - | 17,827 | 17,827 |
| Operation and maintenance of plant services | - | 5,818 | 5,818 |
| Transportation services | - | 123,874 | 123,874 |
| | - | 147,519 | 147,519 |
| Other expenditures: | | | |
| Facilities acquisition | 1,302,805 | 295,234 | 1,598,039 |
| Total expenditures | 1,302,805 | 475,688 | 1,778,493 |
| Excess of revenues over expenditures | 614,178 | 125,033 | 739,211 |
| Other financing (uses): | | | |
| Operating transfers out | (1,694,260) | - | (1,694,260) |
| Total other financing (uses) | (1,694,260) | - | (1,694,260) |
| Net change in fund balances | (1,080,082) | 125,033 | (955,049) |
| Fund balances beginning of year | 2,020,794 | 1,202,682 | 3,223,476 |
| Fund balances end of year | \$ 940,712 | 1,327,715 | 2,268,427 |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2015**

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|--------------------------|---------------------------------|-----------|------------|---------------------------|
| Assets | | | | |
| Cash | \$ 9,969 | - | 611 | 9,358 |
| Total assets | <u>\$ 9,969</u> | <u>-</u> | <u>611</u> | <u>9,358</u> |
| Liabilities | | | | |
| Due to other governments | \$ 9,969 | - | 611 | 9,358 |
| Total liabilities | <u>\$ 9,969</u> | <u>-</u> | <u>611</u> | <u>9,358</u> |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURE BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST TEN YEARS**

| | Modified Accrual Basis | | | | | | | | | |
|---|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
| Revenues: | | | | | | | | | | |
| Local sources: | | | | | | | | | | |
| Local Tax | \$ 6,125,125 | 6,025,640 | 7,218,238 | 7,636,847 | 7,512,198 | 6,342,488 | 5,837,085 | 5,715,871 | 4,475,863 | 5,143,601 |
| Tuition | 1,112,376 | 1,071,903 | 993,423 | 1,077,900 | 1,044,614 | 990,705 | 921,478 | 875,705 | 1,163,555 | 1,018,745 |
| Other | 1,532,938 | 1,755,302 | 868,994 | 965,743 | 853,217 | 948,330 | 1,089,363 | 1,101,418 | 2,003,624 | 1,125,999 |
| State sources | 9,818,541 | 9,450,324 | 7,789,617 | 8,330,873 | 7,794,654 | 6,996,289 | 8,203,024 | 7,994,997 | 7,621,498 | 7,045,015 |
| Federal sources | 475,526 | 521,920 | 382,000 | 545,439 | 736,524 | 1,290,479 | 434,184 | 410,350 | 464,915 | 567,328 |
| Total | \$ 19,064,506 | 18,825,089 | 17,242,272 | 18,556,802 | 17,941,207 | 16,568,291 | 16,485,134 | 16,098,341 | 15,729,455 | 14,900,688 |
| Expenditures: | | | | | | | | | | |
| Instruction: | | | | | | | | | | |
| Regular instruction | \$ 8,102,246 | 7,781,024 | 7,119,814 | 6,458,017 | 6,561,370 | 7,223,885 | 6,921,935 | 6,640,200 | 6,094,933 | 5,697,085 |
| Special instruction | 2,336,968 | 2,115,622 | 1,973,450 | 2,302,080 | 2,025,680 | 1,816,504 | 2,073,664 | 1,955,078 | 2,305,201 | 2,055,594 |
| Other instruction | 1,825,380 | 1,770,513 | 1,814,507 | 1,731,674 | 1,701,138 | 1,919,532 | 1,642,187 | 1,562,230 | 1,429,800 | 1,404,287 |
| Support services: | | | | | | | | | | |
| Student services | 600,823 | 494,895 | 424,509 | 432,328 | 375,374 | 654,989 | 652,071 | 544,349 | 432,183 | 490,975 |
| Instructional staff services | 481,445 | 491,024 | 436,804 | 666,983 | 371,410 | 372,660 | 393,717 | 401,968 | 420,718 | 353,555 |
| Administration services | 1,725,334 | 1,642,779 | 1,610,252 | 1,426,148 | 1,495,949 | 1,551,890 | 1,423,483 | 1,344,138 | 1,253,482 | 1,244,337 |
| Operation and maintenance of plant services | 1,253,922 | 1,273,294 | 1,222,965 | 1,313,770 | 1,196,590 | 1,115,072 | 1,131,622 | 1,139,891 | 1,080,158 | 1,048,294 |
| Transportation services | 881,947 | 956,706 | 778,561 | 847,034 | 726,086 | 799,634 | 803,370 | 697,317 | 800,819 | 689,655 |
| Other support services | - | - | - | - | 3,997 | - | - | 969 | - | - |
| Other expenditures: | | | | | | | | | | |
| Facilities acquisition | 1,598,039 | 1,041,240 | 206,167 | 835,401 | 1,584,854 | 4,952,994 | 7,058,375 | 662,735 | 269,496 | 375,293 |
| Long-term debt: | | | | | | | | | | |
| Principal | 5,385,000 | 490,000 | 470,000 | 450,000 | 435,000 | 420,000 | 545,000 | 714,900 | 699,909 | 669,659 |
| Interest and fiscal charges | 721,892 | 648,996 | 685,065 | 601,190 | 613,336 | 511,790 | 413,796 | 47,680 | 43,324 | 70,377 |
| AEA flowthrough | 596,354 | 577,516 | 547,192 | 547,409 | 613,093 | 615,639 | 560,644 | 519,167 | 498,288 | 458,259 |
| Total | \$ 25,509,350 | 19,283,609 | 17,289,286 | 17,612,034 | 17,703,877 | 21,954,589 | 23,619,864 | 16,230,622 | 15,328,311 | 14,557,370 |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015**

| Grantor/Program: | CFDA Number | Grant Number | Expen- ditures |
|--|----------------|-----------------|-------------------|
| Indirect: | | | |
| US Department of Agriculture: | | | |
| Iowa Department of Education: | | | |
| School Nutrition Cluster Programs: | | | |
| School Breakfast Program | 10.553 | FY 15 | \$ 47,020 |
| National School Lunch Program | 10.555 | FY 15 | 326,255 * |
| Summer Food Service Program for Children | 10.559 | FY 15 | 6,158 |
| | | | <u>379,433</u> |
| US Department of Education: | | | |
| Iowa Department of Education: | | | |
| Title 1 Cluster Programs | | | |
| Title I Grants to Local Educational Agencies | 84.010 | FY 15 | 155,326 |
| Title I Grants to Local Educational Agencies | 84.010 | FY 14 | 2,461 |
| Title 1 (Sina - Schools in Need of Assistance) | 84.010 | FY 15 | 20,578 |
| | | | <u>178,365</u> |
| Title IIA - Teacher Quality Program | 84.367 | FY 15 | 49,344 |
| Title IVA - Grants for State Assessments | 84.369 | FY 15 | 7,615 |
| Green Hills Area Education Agency | | | |
| Individuals with Disabilities Education Act (IDEA) | | | |
| Special Education Cluster: | | | |
| Special Education - Grants to State | 84.027 | FY 15 | 70,040 |
| Iowa Western Community College | | | |
| Vocational Education - Basic Grants to States | 84.048 | FY 15 | <u>25,073</u> |
| Total | | | <u>\$ 709,870</u> |

* Includes \$50,630 of non-cash awards.

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Harlan Community School District. The financial statements of the School District are presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See Accompanying Independent Auditors' Report

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**



Diane McGrain, CPA
Jim Menard, CPA

November 25, 2015

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit Performed
in Accordance with Government Auditing Standards**

The Board of Education of
Harlan Community School District
Harlan, IA 51537

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund balance information of the Harlan Community School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 25, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harlan Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harlan Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Harlan Community School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Continued. . .

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harlan Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Harlan Community School District's Responses to Findings

Harlan Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Harlan Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Harlan Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schroer & Associates, PC

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**



Diane McGrain, CPA
Jim Menard, CPA

November 25, 2015

**Independent Auditors' Report on Compliance With Requirements
Applicable to Each Major Program and Internal Control Over Compliance
In Accordance With OMB Circular A-133**

To Board of Education of
Harlan Community School District
Harlan, IA 51537

Report on Compliance for Each Major Federal Program

We have audited Harlan Community School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Harlan Community School District's major federal programs for the year ended June 30, 2015. Harlan Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Harlan Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harlan Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Harlan Community School District's compliance.

Continued...

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Opinion on Each Major Federal Program

In our opinion, Harlan Community School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

The management of Harlan Community School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Harlan Community School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harlan Community School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schroeder & Associates, PC

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

Part I: Summary of the Independent Auditors' Results:

- (a) Unmodified opinions were issued on the financial statements.
- (b) No significant deficiencies or material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No significant deficiencies or material weaknesses in internal control over the major programs were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
 - CFDA Number 10.559 – Summer Food Service Program for Children
 - Individual program
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Harlan Community School District did not qualify as a low-risk auditee.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No significant deficiencies or material weaknesses were noted.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

No significant deficiencies or material weaknesses in internal control over the major programs were noted.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

Part IV: Other Findings Related to Statutory Reporting:

IV-A-15 Certified Budget

Expenditures for the year ended June 30, 2015 did not exceed the amended certified budget amounts.

IV-B-15 Questionable Expenditures

No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-15 Travel Expense

No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-15 Business Transactions

Business transactions between the District and District officials or employees are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|--|---|---------------|
| Karen Chamberlain and Joan Chamberlain, employees, own shares in Chamberlain Brothers Lumber | Building repairs and maintenance supplies | \$ 5,348 |
| Mike Bierl, employee, owner of Same Printing | T-shirts | \$ 1,108 |
| Jim Bruck and Bill Hosack, employees, co-owners of Drivers Safety, LLC | Purchased services | \$ 31,065 |
| Randy Kroger, employee, owner of Kroger & Sons, LLC | Hauling | \$ 19,390 |
| Josh Muxfeldt, son of board member, owner of Mux's Tools, LLC | Supplies | \$ 5,748 |

In accordance with Iowa State Code 279.7A, the above transactions are not with board members and do not appear to represent a conflict of interest.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

Part IV: Other Findings Related to Statutory Reporting (continued):

IV-E-15 Bond Coverage

Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-15 Board Minutes

Comment – No transactions were found that we believe should have been approved by the Board minutes, but were not. However, we noted the minutes were not published within 15 days, in accordance with Chapter 279.35 of the Code of Iowa.

Recommendation – The board secretary should furnish the minutes of each meeting for publication on a timely matter.

Response – Minutes were furnished within 15 days per Iowa Code. The paper chose not to publish some of the minutes. All minutes are posted to our website.

Conclusion – Response accepted.

IV-G-15 Certified Enrollment

Comment – We noted a variance in the basic enrollment data certified to the Department of Education. The number of students reported on Line 1 as resident students was understated by 1.00 students.

Recommendation – The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response – The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion – Response accepted.

IV-H-15 Supplemental Weighting

No variances regarding the supplemental weighting certified to the Department of Education were noted.

IV-I-15 Deposits and Investments

No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the District's investment policy were noted.

IV-J-15 Certified Annual Report

The Certified Annual Report was certified timely to the Iowa Department of Education.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015**

Part IV: Other Findings Related to Statutory Reporting (continued):

IV-K-15 Categorical Funding

No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-15 Statewide Sales and Services Tax

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2015, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

| | | | |
|--------------------------------|--|----|-----------|
| Beginning balance | | \$ | 2,020,794 |
| Revenues/transfers in: | | | |
| Sales tax revenues | | | 1,348,141 |
| Other local revenues | | | 568,842 |
| | | | 1,916,983 |
| Expenditures/transfers out: | | | |
| Facilities acquisition | | | 1,302,805 |
| Transfers to debt service fund | | | 1,694,260 |
| | | | 2,997,065 |
| Ending balance | | \$ | 940,712 |

For the year ended June 30, 2015, the District reduced the following levy as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

| | | Per \$1,000 of Taxable Valuation | | Property Tax Dollars |
|-----------------------------------|----|--|----|----------------------------|
| Physical plant and equipment levy | \$ | 1.51 | \$ | 722,567 |

IV-M-15 Revenue Bonds

The District is in compliance with the provisions of the revenue bond resolution.